COMMUNICATIONS

Shifting the War Burden

In his presidential address, published in the March number of the American Economic Review, Professor Davenport restates the argument in support of the proposition that no part of the burden of a war can be shifted to future generations. The argument put briefly is somewhat as follows: The future generation necessarily inherits not merely the burden of taxes required to meet interest and principle payments on the war debt, but also the interest-paying and principle-maturing bonds. In short no burden is imposed upon the future generation because the inheritance of war taxes is balanced by the inheritance of bonds. In fact it would be neither better nor worse if the bonds were repudiated and the taxes wiped out. What is taken out of one pocket is paid into the other. The whole burden of the war therefore falls entirely upon the present generation. It is therefore argued that the only possible shifting is a shifting of the burden from the bond-holding class to the other classes of society. For the time being the bond-holding class pays for the war, but in the end this class gets back what it paid, or at any rate gets part of it back by taxing the masses. The burden is not shifted to another generation; it is shifted from one class to another class. Says Professor Davenport: "Solely in the sense of this redistributive bearing on the future, can burdens be passed on."

This argument is no doubt entirely sound when applied to a static society, but the writer raises the question whether it would hold in a progressive society with an increasing population and growing wealth and income. An illustration will make the point clear. Assume first a static society. A war is on. Mr. A buys $100,000 of bonds. His purchase of bonds is proportional to his income. But for the rest of his life he is also taxed in proportion to his income. At 4½ per cent interest he receives each year from the government $4,500, but he also pays to the government war taxes amounting to $4,500 a year, which taxes would have been unnecessary had the bonds not been issued. In reality therefore the bonds are worth nothing to him. His son inherits the bonds, but he also inherits the taxes. He is neither worse nor better off for the inheritance. In fact the situation would have been no whit different had Mr. A paid the government $100,000 in taxes to begin with. In that case neither war taxes nor bonds would have been inherited.

Consider now the situation in a progressive society. Mr. A buys $100,000 of bonds, his proportional share. He receives $4,500 in interest. Since he is also taxed in proportion to his income he pays for the time being $4,500 in war taxes. But the country is growing in population, wealth, and income. At the end of twenty-five years the income of the people of the country has increased 50 per cent. Mr. A is still taxed in proportion to

his income. The burden has not been shifted to the masses in direct taxation. But the proportion of Mr. A's income to the total national income is now smaller. He now pays in war taxes not $4,500 but $3,000. Since he receives $4,500 in interest on his bonds he is $1,500 ahead. Capitalizing this figure at 4½ per cent we may say that the net value of his bonds is now $33,333. He has in effect received back $33,333 of the $100,000 advanced. But it cannot be said that the burden has been shifted from one class to another class. Mr. A is still paying his share in proportion to his income. The increase in the income of the nation as a whole has assumed part of the burden. Had no bonds been issued, that income would have borne no burden whatever. It now bears a burden. The burden carried by the bondholders originally has therefore been correspondingly reduced. In short, is it not possible that the burden can in a progressive society be shifted to the future without that redistribution as between classes mentioned by Professor Davenport?

If it is assumed that proportional taxation is not equitable, progressive taxation may be substituted without in any way modifying the argument. In that case it will, of course, be assumed that the amount of bonds purchased would also be progressively greater the larger the income.

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Integration in Marketing

In the March number of this REVIEW, Mr. L. D. H. Weld, of Swift & Co., presents some criticisms of my article on "Integration in Marketing," which appeared in the September number. His criticisms for the most part imply such a misrepresentation of my position, that a brief reply is called for. He states that my point, that the need of introducing new and expensive methods of marketing tends toward integrated marketing, is designed to create the "wrong impression." On the contrary, this point tends to justify the packers and the Standard Oil Company to the extent that they undertook to introduce desirable marketing methods because the established agencies were not prepared to adopt the more expensive devices required.

Again, I am taken to task for stating that many small packers market as cheaply as the large packers. His criticism that the small packer does a local business and cannot be compared with the larger packer does not apply, for I specifically mentioned as an illustration of the smaller packers the Cudahy Company, the scope of whose operations is comparable with that of Swift and Company, although the latter is several times larger. My point was and is that the packer may be large enough to perform the essential operations of marketing surplus livestock products without being as large

(overgrown) as Armour and Swift are. In the same way, my point that the large-scale operations of some wholesale grocers are not based on economic efficiency in marketing is misrepresented. My point is, not that these large-scale operations are necessarily uneconomic, but that the small wholesaler often can and does make as high a *rate* of profit as the large one. Mr. Weld is mistaken in his statement that the small jobber cannot market a line of canned goods under his own label, for many relatively small jobbers do this.

The criticism ends with a protest against references to "excessive advertising" and to "public benefit" and wasteful methods of competition, saying that these references tend to inflame prejudices and suspicions. I mentioned as a case of excessive advertising a two-page display in the *Saturday Evening Post* setting forth in two colors the picture of a platter of ham and eggs. This seems sufficiently specific, and I believe few will deny that a line can be drawn between those advertisements which are calculated to develop a market for new commodities and those which are purely acquisitive and apply to well established commodities. Large expenditures for the latter class of advertisements may not be for the public benefit.

Mr. Weld attacks my implication that the expenses of a mail-order house for handling groceries are similar to the average for its entire business. This is a matter which requires further study and more exact information. Meanwhile it is something definite to know that the cost of marketing groceries via wholesaler and retailer is about the same as the cost of all marketing by mail-order houses, in spite of the greater services given by the former channel.

It is stated that I omit what is perhaps the most important reason for integration in marketing—perishability of products. This point is covered in my classification under the need for introducing new and expensive marketing methods. The refrigerator car was the method required by the meat packers and it was required on account of the perishability of meat. The statement that the marketing of cheese has been taken over largely by the meat packer, because the wholesale grocer did not have the facilities for handling this perishable product, is indicative of the attitude of the meat packers toward the government's investigation of their business. A study of the Federal Trade Commission's report on this subject will convince any unbiased reader that the packers have acquired the cheese business as a result of other forces than those which arise from the semi-perishability of this product.

In concluding, I would call attention to the statement that in 1919 Swift and Company spent less than one fourth of one per cent of its sales on advertising. This is the same device which the packers have used in their endeavor to convince the public that their profits are small. As I recall, Swift and Company was reported to be spending something like $2,500,000

on advertising, which does not appear so small. Moreover, if the packer's entire net profit is only something less than 2 per cent on sales, it should be apparent that .4 of one per cent is a very large fraction of their total net earnings.

After careful reflection on Mr. Weld's criticism I am inclined to maintain without change my judgment that there is such a thing as "excessive advertising," that it has been a potent factor in bringing about integration of marketing, and that integration so brought about does not represent any "public benefit."

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